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February 26, 2004

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

Re: D.T.E. 04-2, Boston Edison Company, Cambridge Electric Light Company, Commonwealth Electric Company, NSTAR Gas Company, NSTAR Merger Savings Report

Dear Secretary Cottrell:

Enclosed for filing in the above-referenced matter are the responses of Boston Edison Company, Cambridge Electric Light Company and Commonwealth Electric Company d/b/a NSTAR Electric and NSTAR Gas Company to the Information Requests set forth on the accompanying list.

Please note that NSTAR Electric and NSTAR Gas Company intend to respond to the comments filed by the Attorney General no later than March 5, 2004.

Thank you for your attention to this matter.

Sincerely,

Cheryl M. Kimball/brl

Cheryl M. Kimball

Enclosures

cc: Caroline Bulger, Esq.
Service List

<u>Responses to Information Requests</u>

Information Request DTE-1-1
Information Request DTE-1-2
Information Request DTE-1-3
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Information Request DTE-1-1

Was the business combination approved in BECo/Com Energy Acquisition, D.T.E. 99-19 (1999) consummated on August 25, 1999?

Response

The actual date of consummation of the Boston Edison Company - COMEnergy merger was August 24, 1999.

Information Request DTE-1-2

Please explain why the Merger Savings Report (including Tables A-U) does not provide data for the period post-August 25, 1999 through year-end 2000 in the Merger Savings Report.

Response

The Merger Savings Report does not report savings data for the last half of 1999 because no savings were forecast in the merger filing for 1999, and therefore, this partial-year period was not part of the analysis of merger savings approved by the Department in D.T.E. 99-19. Boston Edison/COMEnergy Merger, D.T.E. 99-19, at 63 (1999).. The Company did not report savings data for 2000 because the financial data available to the Company for that period was generated using the various (and different) accounting and personnel systems employed prior to the merger by COM/Energy and Boston Edison. Because different accounting and personnel systems were used by the two merging companies in 2000, it became apparent to the Company in developing the merger-savings report that it would be difficult to assemble the data and to combine it into a single data set that would be complete and consistently structured for purposes of measuring savings.

This difficulty, combined with the fact that the savings achieved going forward (in 2001 and 2002) showed that actual savings had significantly exceeded the merger targets, led the Company to conclude that including data for 2000 would be of questionable value to the Department. However, the Company is willing to attempt to develop this data for the Department should the Department determine that this information would be of significant value. Based on its review to date, the Company expects the merger savings to exceed the merger targets in 2000, because labor savings represented the largest component of the overall merger savings achieved by the Company and most of the employee reductions occurred early in 2000.

Information Request DTE-1-3

Please provide documentation that validates the inflation factors for each of the categories shown in the Merger Savings Report at 6.

Response

Attachment DTE-1-3 compares the actual level of inflation for each of the various factors to the forecast data. As shown on Attachment DTE-1-3, the inflationary increases in labor and benefit costs exceeded the forecasted level. The other increases were in line with the forecasts.

TABLE B

Financial Assumptions (continued)

		Annual Inflation	Weight Savings in 2002	Actual inflation				Reference	Description
Escalation Rates (All years)									
	Labor (Blended Salary and Benefits)	Filing		1999	2000	2001	2002		
1	Salaries	3.50%	$ 51	3.41%	4.06%	3.72%	3.30%	JECIWSP	ECI-Wages & Salaries
2	Benefits	6.35%		4.62%	8.16%	8.69%	10.80%	JECIBPHO	ECI-Health Benefits
	General								
3	Administrative and General Overhead	2.50%	$ 1	2.90%	3.80%	3.60%	3.50%	JEADGOMMS	Admin and General
4	Advertising	4.69%	$ 1	2.10%	2.90%	3.60%	2.70%	JEADG9301MS	General Advertising
5	Insurance	2.50%	$ 2	3.90%	3.70%	3.80%	4.00%	JEADG924MS	Property Insurance
6	Facilities	2.50%	$ 19	-0.90%	2.70%	1.10%	1.30%	JRENT	Distibution Plant Rents
7	Shareholder Services	2.50%	$ 1	2.90%	3.80%	3.60%	3.50%	JEADGOMMS	Admin and General
8	Director's Fees	2.50%	$ 1	2.90%	3.80%	3.60%	3.50%	JEADGOMMS	Admin and General
9	Association Dues	2.50%	$ 0	2.90%	3.80%	3.60%	3.50%	JEADGOMMS	Admin and General
10	Regulatory Expenses	2.50%		2.30%	4.00%	2.70%	1.40%	JEADG928MS	Regulatory Commission
11	Benefits	6.35%	$ 13	4.62%	8.16%	8.69%	10.80%	JECIBPHO	ECI-Health Benefits
12	MIS (Operating Costs)	2.50%	$ 8	4.40%	11.60%	3.30%	10.50%	PCU7372#4 (N)	Maintenance, documentation,
13	MIS (Development Projects)	2.50%	$ 11	4.40%	11.60%	3.30%	10.50%	PCU7372#4 (N)	training, and other software
14	Professional Services	4.69%	$ 2	3.60%	4.10%	3.90%	3.30%	JEADG923MS	Outside Services
15	Lines of Credit	2.50%	$ 0	2.90%	3.80%	3.60%	3.50%	JEADGOMMS	Admin and General
16	Procurement	2.50%	$ (9)	0.75%	2.60%	2.97%	3.30%	JUEPD@NTL	Construction Distribution Plant
17	Inventory	2.50%	$ 8	0.75%	2.60%	2.97%	3.30%	JUEPD@NTL	Construction Distribution Plant
18	Contract Services	4.69%	$ (1)	3.60%	4.10%	3.90%	3.30%	JEADG923MS	Outside Services
19	Vehicles	2.50%	$ 0	2.90%	3.80%	3.60%	3.50%	JEADGOMMS	Admin and General
	Research & Development	NA							
	Cost to Achieve	NA							
	Pre-Merger Initiatives	NA							

Note all data is from DRA with the exception of lines 12 and 13 which are taken from the Bureau of Labor Statistics

Information Request DTE-1-4

Refer to the Merger Savings Report at 10. Please identify and detail the reasons for the number of field personnel that were hired in 2002.

Response

The number of field personnel increased from 1,922 in 2001 to 2,000 in 2002, which is a net increase of 78 people (taking into consideration that employees both joined and left the Company during this time period). Of this increase, 47 positions related to Customer Service (line C10), which is discussed in the Company's response to Information Request DTE 1-7. Of the remaining positions, 28 positions related to Electric Distribution (line C12), as shown in the Merger Savings Report at page 34. Several areas had significant increases that are not apparent in the total numbers, including Distribution System Planning (L1); Distribution Engineering and Support (L2), Distribution Facilities Construction (L3); Transformer & Substation Maintenance (L6); and Other (L11). Employee levels within these categories decreased in 2001 as a result of employee retirements and attrition. The increase in 2002 was needed to replace employees who left in 2001 and to maintain sufficient staff to ensure system reliability.

Information Request DTE-1-5

Refer to the Merger Savings Report at 21. Please detail why the number of personnel in data administration and security increased rather than decreased, as projected by the Companies in D.T.E. 99-19.

Response

The number of staff in the category of Data Administration and Security increased as a result of the reallocation of IT positions to Data Administration and Security functions. This reallocation was needed to address the renewed focus on information security, data quality and financial reporting, which is the subject of new legislation and regulatory requirements resulting from both the September 11, 2001 terrorist attacks and the financial accounting scandals. These requirements include FERC's Urgent Action Standard 1200 - Cyber Security, security guidelines established by the American Gas Association and the Sarbanes-Oxley Act (Section 404).

These new standards coupled with the Company's need to work proactively to secure central systems against unauthorized access required an upgrade of security personnel. Moreover, data-management support was required in the post-merger period to integrate the different systems operate by the merging companies. Specifically, the Company's system-integration efforts required extended efforts to increase service to internal and external customers by leveraging existing data across many applications through the establishment of data standards, data warehouses and analytical reporting. This required the addition of personnel was not anticipated in the merger filing.

Information Request DTE-1-6

Refer to the Merger Savings Report at 23. Please detail why the number of personnel in real estate increased rather than decreased, as projected by the Companies in D.T.E. 99-19.

Response

The number of personnel working on rights of way increased from 11 in 1998 to 14 in 2003 because of significant increased activity relating to distribution infrastructure projects resulting from efforts to ensure system reliability.

The number of people in NSTAR's Real Estate Group increased from 5 in 1998 to 6 in 2002 because of the continued activities relating to facilities consolidation, closures and sale or lease renegotiation. The Real Estate Group is responsible for all corporate real estate functions for NSTAR. These functions include site selection and acquisitions, dispositions, lease negotiations, financial analysis and budgeting, portfolio management and administration, and tenant and landlord representation on behalf of the Company.

Information Request DTE-1-7

Refer to the Merger Savings Report at 29. Please provide the rationale for the exclusion of 77 new meter reading personnel in the calculation accompanying the discussion regarding the reduction of duplicative functions in customer service. Also, recalculate the costs or savings when the 77 new meter readers are included.

Response

As stated in the Merger Savings Report at page 29, the increase in meter reader positions resulted from the Company's decision to move from a bi-monthly to a monthly meter reading schedule for Boston Edison, which was completely unrelated to the merger consolidation efforts. The change in meter-reading positions was referenced in the Merger Savings Report only because the Company wanted to be clear to the Department that there had been a significant change in the number of staff in this department and to eliminate any resultant confusion in the future as to the tie-in between these positions and the positions analyzed in the Merger Savings Report. Conversely, the additional costs associated with these new positions were excluded from the Merger Savings Report because (1) the costs relate to an operational change and are not in any way related to the merger consolidation or integration efforts, and (2) the operational change and associated costs occurred subsequent to the merger. In fact, this exclusion is required because it represents a change in the level of service (unrelated to the merger) and was not represented in Mr. Flaherty's analysis. Therefore to create an "apples to apples" comparison to the analysis set forth in the merger filing, these costs must be excluded.

However, the cost of the 77 meter readers would have reduced savings by $5.4 million based on an estimated fully loaded meter reader cost of $70,000 per person.

Information Request DTE-1-8

In comparing the Companies' stated savings in the Merger Savings Report at 3 with the Companies' costs described in the Merger Savings Report at 80, is it accurate to conclude the Companies achieved $80 million in net savings?

Response

No, this is not an accurate statement. The Company's analysis shows that the Company will achieve net savings (i.e., merger-related savings in excess of merger-related costs) that are much greater than the savings achieved in 2001 and 2002.

Specifically, the savings achieved in 2001 and 2002 (and shown on page 3) total $223 million.[1] The lifetime costs to achieve these savings (shown on page 80) are $143.0 million, with the difference being $80 million. However, some of these costs are not tax deductible, and therefore, the total cost is actually $153.6 million.

Thus, the net savings achieved in 2001 and 2002 total $69.4 million, or $223 million less $153.6 million. However, this represents the difference between the total costs to achieve merger and the net savings for only two years of the merger. This means that the total net savings continue to accrue each year, but the fixed costs to achieve are fully covered.

[1] The capital savings are shown in the year that they actually occur rather than the method used by Mr. Flaherty which was a cost of service/carrying charge savings. The reason is that once a capital savings occurs (ie: the sale of Blackstone for $13.6 million) the savings are known.

Information Request DTE-1-9

Do the Companies realize savings as described in the Merger Savings Report at 3 on a going-forward basis?

Response

Yes. Please see the Company's response to Information Request DTE 1-8. The annual savings shown in the Merger Savings Report at page 3 are expected to continue and to increase each year by the rate of inflation. For example, if the Company has 100 fewer employees as a result of the merger, and the salaries of these employees would have increased over time had they remained with the Company, the savings achieved by the Company will increase each year. In particular O&M savings tend to increase over time along with the capitalized portion of those costs. Similarly, elimination of duplicate computer systems will continue to provide savings into the future. Only capital costs such as the elimination of facilities tend to be one time savings.

Because the bulk of the merger savings result from O&M savings and a relatively small portion is achieved as a result of facilities or capital costs savings, the Company would expect savings to continue to exceed the savings identified in the merger filing by a substantial amount.